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QUOTE: C O N F I D E N T I A L ABU DHABI 02793

FROM AMCONGEN DUBAI

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SUBJECT: IRAN A YEAR AFTER KHOMEINI - LIVING WITH THE LEGACY

REF: ABU DHABI 2107

11. CONFIDENTIAL - ENTIRE TEXT.

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12. SUMMARY: A YEAR AFTER KHOMEINI'S DEATH, IRAN'S
LEADERS ARE DIVIDED OVER THE COUNTRY'S FUTURE POLITICAL
DIRECTION. THEIR DISAGREEMENTS, ALTHOUGH SOMETIMES
EXPRESSED IN OBSCURE THEOLOGICAL TERMS, ARE ON DISPLAY
IN VIGOROUS DEBATES IN THE MEDIA, PARLIAMENT, FRIDAY
SERMONS, AND OTHER PUBLIC SPEECHES. THIS DEBATE,
HOWEVER, IS FOR INSIDERS ONLY, AND THE OPINIONS OF
THOSE OUTSIDE THE RULING ELITE ARE NEITHER SOUGHT NOR
CONSIDERED. WHILE THE POLITICIANS ARGUE, THE ECONOMY
CONTINUES TO STAGNATE. EFFORTS TO REVIVE DOMESTIC
PRODUCTION, REBUILD THE OIL INDUSTRY, AND CONTROL
RUINOUS INFLATION HAVE BEEN COMPLETELY INADEQUATE.
HAVING MADE A REVOLUTION THAT REJECTED ECONOMICS AS A
BASIS OF NATIONAL POLICY, THE NEW LEADERS ARE FINDING
THAT PART OF KHOMEINI'S LEGACY VERY DIFFICULT TO
CHANGE, NOR IS THERE YET ANY OVERWHELMING PRESSURE ON
THEM TO DO SO. APATHY IS MORE PREVALENT THAN
RESISTANCE AND THERE SEEMS NO SIGNIFICANT ORGANIZED
OPPOSITION THAT WOULD THREATEN THE REVOLUTION ITSELF.
END SUMMARY.

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THE FEW RULE AND ARGUE; THE MANY WATCH

13. THE MASS POLITICS, WHICH CHARACTERIZED THE IRANIAN
REVOLUTION AND THE EARLY YEARS OF THE ISLAMIC REPUBLIC,
ARE OVER. PERHAPS THE LAST MANIFESTATION WAS
KHOMEINI'S FUNERAL. GONE ARE THE MILLION-STRONG
MARCHES AND DEMONSTRATIONS WHICH PROCLAIMED "DEATH TO
THIS" OR "LONG LIVE THAT". NOW, ZEALOTS COMPLAIN WHEN
IRANIAN RADIO TV IGNORES TWO HUNDRED PEOPLE
DEMONSTRATING AGAINST WOMEN'S IMMORAL DRESS (REFTEL).
AND A TEHRAN UNIVERSITY PROTEST AGAINST U.S.-IRAN TIES
IS ALMOST IGNORED.

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14. IRAN'S LEADERS ARE IN THE BUNKER WHERE THEY
SQUABBLE LOUDLY AMONG THEMSELVES. THE SUPERNUMERARIES
WHO USED TO MARCH AND SHOUT, HOWEVER, NOW ONLY WATCH.
MOST OF THEM HAVE SHIFTED FROM SUPPORTING THE REGIME TO
ENDURING IT. THEY GRASP AT ANY SIGN, SUCH AS ANOTHER
INCH MORE EXPOSURE OF WOMEN'S HAIR, OR FIVE MINUTES
MORE MUSIC ON IRAN RADIO, THAT MIGHT INDICATE THINGS
ARE GETTING BETTER.

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15. BASED ON OUR OBSERVATION, WE WOULD ILLUSTRATE THE
BREAKDOWN OF IRANIAN POPULATION ROUGHLY AS FOLLOWS:

(A) 0.5 PERCENT ARE IN THE REGIME.

(B) 2.5 PERCENT SUPPORT IT.

(C) 2.5 PERCENT OPPOSE IT.

(D) THE REST (94.5 PERCENT) ENDURE IT.

THOSE IN THE REGIME ARE TWO GROUPS: AN OUTER CIRCLE OF THOSE WHO, THROUGH POSITIONS IN THE GUARDS, THE ISLAMIC COMMITTEES, ETC. HAVE ACCESS TO SCARCE GOODS AND SERVICES SUCH AS SUBSIDIZED CONSUMER GOODS AT SUBSIDIZED PRICES, REASONABLE HOUSING, AND UNIVERSITY PLACES. AN INNER CIRCLE OF ABOUT 5,000 SENIOR CLERICS, MINISTERS, JUDGES, FRIDAY PREACHERS, PARLIAMENT DEPUTIES, AND PROVINCIAL OFFICIALS, ACTUALLY RULE IRAN. WITHIN THIS GROUP. TWENTY-TO-THIRTY VETERANS OF REVOLUTIONARY POLITICS MAKE THE DECISIONS. THIS LAST GROUP INCLUDES SUCH SURVIVORS AS AYATOLLAHS ARDABILI, YAZDI, MESHKINI, JANNATI, MAHDAVI-KANI, AND REYSHAHI. OTHER MEMBERS ARE PRESIDENT HASHEMI-RAFSANJANI, SUPREME LEADER KHAMENE'I, MASHHAD BOSS VA'EZ TABASI, PARLIAMENT SPEAKER MAHDI KARROUBI, AND FORMER INTERIOR MINISTER MOHTASHEMI-POUR.

16. MEMBERS OF THIS GROUP ARE INTERCHANGEABLE PARTS OF A MACHINE. LONG PERSONAL ASSOCIATIONS AND TIES OF MARRIAGE AND BUSINESS GIVE THIS GROUP ITS COHESION. WHEN ONE MEMBER IS ELIMINATED BY DEATH, NATURAL OR OTHERWISE, ANOTHER REPLACES HIM AND POLICIES CONTINUE. DESPITE PERSONAL RIVALRIES, MEMBERS SHARE A LOVE OF POWER, A DETERMINATION TO HOLD IT AT ALL COSTS, AND A WORLD VIEW SHAPED BY KHOMEINI'S UNCOMPROMISING AND IDIOSYNCRATIC VISION OF A UTOPIAN ISLAMIC STATE.

17. WITHIN THE ELITE, THERE IS FREE-WHEELING VIGOROUS DEBATE WHICH OFTEN SPILLS INTO PUBLIC VIEW. BUT THIS DEBATE IS BY AND FOR INSIDERS. OUTSIDERS -- BE THEY CLERICS LIKE AYATOLLAH MONTAZERI OR NATIONALISTS LIKE MAHDI BAZARGAN -- ARE NOT WELCOME TO PARTICIPATE. MOST IRANIANS ARE OF COURSE FREE TO WATCH AND LISTEN TO THEIR BETTERS ARGUE, BUT OUTSIDERS' OPINIONS ARE NEITHER SOLICITED NOR CONSIDERED. THE ELITE HAS SHOWN THAT, WHEN THREATENED OR QUESTIONED, IT CAN ACT DECISIVELY AND BRUTALLY.

GUARDIANS OF PURITY

18. THE CURRENT LEADERS ARE DIVIDED OVER WHETHER IRAN MUST CHANGE ITS MILITANT, REJECTIONIST POLICIES IN ORDER TO ESTABLISH NORMAL RELATIONS WITH THE OUTSIDE WORLD AND REBUILD HER ECONOMY. ON ONE SIDE ARE THOSE WHO PUSH ECONOMIC RECONSTRUCTION AND ARGUE THAT UNDER PRESENT CONDITIONS A POLICY OF CONFRONTATION, SLOGANS AND HARSH SOCIAL RESTRICTIONS HAS ALIENATED BOTH IRANIANS AND FOREIGNERS FROM KHOMEINI'S ISLAMIC UTOPIA. THEY SAY THAT IRAN, WITH HER MATURE REVOLUTION, NO LONGER HAS ANYTHING TO FEAR FROM STABLE, PREDICTABLE RELATIONS WITH OTHER STATES AND SYSTEMS. SUCH RELATIONS MAY EVEN BRING IRAN ECONOMIC AND POLITICAL BENEFITS.

19. ON THE OTHER SIDE ARE THOSE WHO, WHILE NOT EXPLICITLY OPPOSED TO RECONSTRUCTION OR IMPROVED LIVING CONDITIONS, RESIST THE POLITICAL AND SOCIAL CHANGES SUCH STEPS WOULD REQUIRE. FOR THEM, GUARDING THE PURITY OF KHOMEINI'S VISION COMES BEFORE ALL THINGS. THEIR BANNER IS THE "IMAM'S LINE", A SHORTHAND FOR NEGATIVE AND SIMPLISTIC THINKING THAT HAS LED TO THE ISLAMIC REPUBLIC'S EXCESSES AND SELF-DESTRUCTIVE POLICIES. IF GUARDING THAT VISION MEANS IRAN'S CURRENCY IS WORTHLESS, THAT HER FACTORIES PRODUCE NOTHING, AND THAT HER OIL INDUSTRY CONTINUES TO DETERIORATE, THEN SO BE IT. SUCH THINGS WERE NEVER IMPORTANT TO THE IMAM AND WHY SHOULD THE GUARDIANS OF HIS LEGACY CONSIDER SUCH THINGS?

¶10. THE IRANIAN ECONOMY IS A DISASTER. EVEN THOSE WHO BENEFIT BY SPECULATIONS IN CURRENCIES AND SCARCE COMMODITIES ADMIT THAT SOMETHING NEEDS TO BE DONE TO RESTART ECONOMIC ENGINES THAT HAVE BEEN SHUT DOWN SINCE ¶1979. THE IRANIAN RIAL IS ALMOST WORTHLESS (NOW TRADING AT ABOUT 1350 TO THE U.S. DOLLAR) AND THE RESULTING INFLATION HAS DESTROYED THE PURCHASING POWER OF WAGE AND SALARY EARNERS AND OF PENSIONERS. TOP GOVERNMENT SALARIES ARE EQUIVALENT TO USD 150 PER MONTH, AND MOST EMPLOYEES MUST HAVE SECOND JOBS.

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¶11. IRANIAN INDUSTRY IS PRODUCING AT ABOUT THIRTY PERCENT OF CAPACITY. MUCH OF IRAN'S FOREIGN CURRENCY EARNINGS GO FOR IMPORTS OF FOOD AND CONSUMER GOODS - REFRIGERATORS, TELEVISIONS, CAR BATTERIES, TIRES, ETC. -- WHICH HAVE NO DIRECT AFFECT ON PRODUCTIVITY. OVER-REGULATION OF IMPORTS HAS LED TO CORRUPTION AND PROFITEERING AS SUBSIDIZED GOODS IMPORTED UNDER STATE LICENSES ARE DIVERTED TO THE FREE MARKET FOR LARGE PROFITS. MANY ENTERPRISES ARE UNDER CONTROL OF THE LARGE "FOUNDATIONS" WHICH HAVE STRANGLED PRODUCTIVITY AND PROFITS IN THE NAME OF ISLAMIC SOCIAL JUSTICE.

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¶12. IRAN HAS AN ENORMOUS HIDDEN DEBT WHICH SOME ESTIMATE AT USD 200-300 BILLION. THIS DEBT IS WHAT IRAN DID NOT SPEND IN THE LAST TEN YEARS ON THE OIL INDUSTRY, ROADS, POWER STATIONS, PORTS, SCHOOLS AND HOSPITALS. IT IS ALSO WHAT SHE DID NOT EARN FROM NEGLECTED OR RUINED INVESTMENTS. INSTEAD, IRAN FOR TEN YEARS PUMPED AND SOLD CRUDE OIL TO BUY FOOD AND WEAPONS, AND INVESTED ALMOST NOTHING IN HER ECONOMY. FROM 1978, HUNDREDS OF PROJECTS -- FROM THOSE STILL ON PAPER TO THOSE NEEDING ONLY THREE BOLTS TO FINISH -- WERE ABANDONED AND LEFT FOR RUST AND VANDALS TO DESTROY.

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¶13. AS A DELIBERATE POLICY, THE AUTHORITIES ENCOURAGED THOUSANDS OF IRANIANS, WHO COULD NOT ADJUST TO THE RESTRICTIONS OF LIFE IN AN ISLAMIC REPUBLIC, TO LEAVE THE COUNTRY. ALTHOUGH OFFICIALS TALK ABOUT THEIR RETURN, THERE ARE FEW SIGNS THAT THE ORIGINAL POLICIES THAT DROVE THEM OUT ARE CHANGING. MANY TRAINED AND WELL-EDUCATED IRANIANS WHO HAVE NOT LEFT HAVE, FOR BOTH ECONOMIC AND POLITICAL REASONS, GIVEN UP WORKING IN THEIR SPECIALTIES AND EARN A LIVING IN THE FLOURISHING BLACK MARKET. OTHERS, WHO HAVE STUCK IT OUT FOR TEN YEARS IN THE HOPE OF BETTER TIMES, ARE GIVING UP AND LOOKING FOR ESCAPE ROUTES.

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¶14. THE ECONOMIC AGREEMENTS WITH THE SOVIET UNION WERE FOR SHOW ONLY. GIVEN IRAN'S ENORMOUS ECONOMIC NEEDS, THE AMOUNTS INVOLVED ARE INSIGNIFICANT. THE GOVERNMENT'S MAIN PURPOSES WERE POLITICAL: TO SHOW THAT IRAN HAD FRIENDS IN THE OUTSIDE WORLD AND TO SHOW THE PEOPLE THAT THE GOVERNMENT WAS "DOING SOMETHING" IN THE ECONOMIC SPHERE.

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POOR PROSPECTS

¶15. POLITICAL AND ECONOMIC PROSPECTS ARE POOR. ALTHOUGH SOME INDIVIDUALS WITHIN THE LEADERSHIP SAY IRAN MUST GIVE UP BANKRUPT SLOGANS AND STOP MAKING NEEDLESS ENEMIES, THEIR VIEWS HAVE NOT LED TO ANY CONSISTENT NEW POLICY. ONE DAY LEADERS SPEAK OF TOLERANCE, THE NEXT DAY THEY LAUNCH A NEW CAMPAIGN AGAINST UNISLAMIC DRESS AND BEHAVIOR. TALK OF CHANGE HAS REMAINED TALK, APPARENTLY MUCH OF IT AIMED AT CONVINCING FOREIGNERS TO EXTEND CREDITS AND MAKE INVESTMENTS. SLOGANEERING AND IDEOLOGY MAY NO LONGER HAVE THE MASS APPEAL OF TEN YEARS AGO, BUT THEY ARE STILL POWERFUL WEAPONS IN TEHRAN'S POWER STRUGGLES. MANY OF TODAY'S LEADERS CAME TO POWER BY IMITATING KHOMEINI'S OBSTINATE REFUSAL TO COMPROMISE, AND THEY

WILL NOT EASILY ABANDON THIS FORMULA.

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¶16. IRAN'S POPULATION GROWTH IS OUT OF CONTROL, GROWING AT MORE THAN THREE PERCENT PER YEAR. THE COMBINATION OF POPULATION GROWTH AND NO INVESTMENT MEANS THAT SERVICES -- SCHOOLS, WATER, TRANSPORT, AND ELECTRICITY -- ARE BREAKING DOWN UNDER THE PRESSURE. AFTER LIVING OFF THE STORED FAT FROM THE PREVIOUS REGIME FOR TEN YEARS, IRAN WILL EITHER HAVE TO MAKE RADICAL POLITICAL CHANGES TO REBUILD OR RESIGN ITSELF TO PERMANENT THIRD-WORLD POVERTY.

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POLITICAL BACKSWING NOT EVIDENT

¶17. DETERIORATING LIVING STANDARDS AND THE LACK OF CHARISMATIC LEADERSHIP HAS, AND WILL, LEAD TO OUTBURSTS OF FRUSTRATION. BUT THESE SHOW NO SIGN OF TRANSFORMATION INTO SIGNIFICANT POLITICAL PROBLEMS FOR THE REVOLUTION AS A WHOLE. THERE IS NO ORGANIZED OPPOSITION WITH STRENGTH CAPABLE OF THREATENING THE REGIME'S GRIP ON POWER. THE DISPUTES MANIFEST IN THE SPEECHES AND THE PRESS ARE WITHIN THE RANKS OF THE REVOLUTION ITSELF. THERE IS LITTLE HAPPENING IN THE STREETS AND IT IS NO THREAT. APATHY AND WAR WEARINESS PROVIDE A KIND OF SUPPORT THROUGH INERTIA. MOST IRANIANS WE SPEAK TO PREFER THIS REGIME -- IT IS THE DEVIL THEY KNOW -- TO THE IDEOLOGY OF MOHAHEDIN AL KHALQ OR A RETURN TO A DISCREDITED MONARCHY. AND WHILE TODAY'S LEADERS FEUD OVER MANY ISSUES, THEY REMAIN HIGHLY AWARE OF THEIR COLLECTIVE POSITION AND POWER. THEY RARELY THREATEN EACH OTHER PERSONALLY. THERE IS NO APPARENT LESSENING OF THEIR ABILITY TO DEAL RUTHLESSLY AND EFFECTIVELY WITH THEIR OPPONENTS OR THOSE WHO QUESTION THEIR RIGHT TO RULE. SO FAR, DESPITE THEIR INEPTNESS IN MANY AREAS, THE REVOLUTION'S INNER CIRCLE LOOKS CAPABLE OF SURVIVING. WALKER
UNQUOTE BAKER

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